

Message Text

UNCLASSIFIED

PAGE 01 PARIS 11840 01 OF 02 230753Z

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ACTION EUR-12

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FM AMEMBASSY PARIS

TO USDOC WASHDC

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AMEMBASSY CAIRO

UNCLAS SECTION 01 OF 02 PARIS 11840

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E.O. 11652: N/A

TAGS: BEXP FR

SUBJECT: PEUGEOT TAKES OVER CITROEN AS MICHELIN WITHDRAWS

REF: (A) PARIS A-01, JAN. 1, 1975

1. SUMMARY

BY AGREEMENT AMONG PEUGEOT, CITROEN AND MICHELIN ANNOUNCED APRIL 9, PEUGEOT NOW CONTROLS 90 PERCENT OF CITROEN'S STOCK. THIS COMPLETES RESCUE ACTION BEGUN IN DECEMBER 1974 WHEN CITROEN WAS FACING BANKRUPTCY. WITH BOTH CITROEN AND PEUGEOT SCORING IMPRESSIVE SALES INCREASES IN 1975, PEUGEOT EXERCISED ITS OPTION TO TAKE OVER CONTROL OF CITROEN. PEUGEOT AND RENAULT ARE NOW LEFT AS PREDOMINANT FRENCH-OWNED MOTOR VEHICLE PRODUCERS AND POSSIBILITIES OF COOPERATION ARE SUBJECT TO PRESS SPECULATION. MICHELIN, ENDING A 42-YEAR RELATIONSHIP WITH CITROEN, WILL HENCEFORTH CONCENTRATE ON TIRE PRODUCTION, BOTH AT HOME AND ABROAD, PRIMARILY TO STRENGTHEN ITS POSITION IN FACE OF U.S. INTERNATIONAL COMPETITION. END SUMMARY.

2. PRIVATELY-OWNED FRENCH AUTOMOBILE COMPANY PEUGEOT, BY BUYING OUT MICHELIN'S SHARES, HAS OBTAINED 90 PERCENT CONTROL OF THE AUTO PRODUCER CITROEN, UNCLASSIFIED

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PAGE 02 PARIS 11840 01 OF 02 230753Z

ACCORDING TO APRIL 9 JOINT COMMUNIQUE. UNDER THE

AGREEMENT CONCLUDED IN 1974, WHEN CITROEN WAS FACING BANKRUPTCY (SEE REFERENCE), PEUGEOT HAD OPTION IN 1976 OF EXPANDING ITS 38 PERCENT SHARE TO MAJORITY HOLDING. WHEN IT EXERCISED THIS OPTION, MICHELIN DECIDED TO EXCHANGE ITS REMAINING SHARES IN CITROEN FOR PEUGEOT STOCK RATHER THAN REMAIN MINORITY SHAREHOLDER IN CITROEN. MICHELIN WILL NOW HOLD 12.1 PERCENT OF CAPITAL IN PEUGEOT. ACCORDING TO PRESS REPORTS, MICHELIN PREFERS TO FOCUS ON COMPETITION IN TIRES AGAINST US PRODUCERS AND NOT DIVERT A SUBSTANTIAL PORTION OF ITS CAPITAL AND MANAGEMENT ATTENTION INTO AUTO MANUFACTURE.

3. COMMUNIQUE STATES THAT BOTH PEUGEOT AND CITROEN WILL MAINTAIN THEIR CORPORATE IDENTIFY AND PRODUCTION LINES AND INDEPENDENCE OF THEIR SEPARATE DEALER NETWORKS. HOWEVER, OBSERVERS HAVE POINTED OUT THAT NEW OWNERSHIP ARRANGEMENTS WILL ALLOW MORE FLEXIBILITY IN THE USE OF FACTORIES, RESEARCH FACILITIES, FINANCING AND PERSONNEL. THERE IS ALSO SPECULATION THAT THE EMERGENCE OF ONLY TWO MAJOR FRENCH-OWNED PRODUCERS OF AUTOMOBILES IN FRANCE - PEUGEOT (PRIVATE) AND RENAULT (PUBLIC) - WILL FACILITATE COOPERATIVE AGREEMENTS BETWEEN THESE TWO GIANTS IN FIELDS OF PRODUCTION AND EXTERNAL MARKETING AND POSSIBLY OTHER AREAS. ACCORDS HAD BEEN PREVIOUSLY REACHED, BUT RENAULT HAD BEEN DRAGGING ITS FEET AS LONG

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PAGE 01 PARIS 11840 02 OF 02 230751Z

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UNCLAS SECTION 02 OF 02 PARIS 11840

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AS MICHELIN WAS SUBSTANTIAL FORCE IN CITROEN.

4. THE COMBINED PRODUCTION OF CARS AND TRUCKS IN 1975 FOR PEUGEOT (1.25 MILLION) AND RENAULT (1.4 MILLION) WOULD PLACE THE TWO AFTER GENERAL MOTORS (5.5) AND FORD (3.5) ON THE INTERNATIONAL TOP TEN MOTOR VEHICLE PRODUCERS. (PEUGEOT AND RENAULT WILL NOW TOGETHER ACCOUNT FOR 85 PERCENT OF FRENCH AUTOMOBILE PRODUCTION, WITH CHRYSLER' FRANCE ACCOUNTING FOR VIRTUALLY ALL OF THE REMAINDER). THUS, INFORMAL COOPERATION OF THE TWO REMAINING MAJOR FRENCH-OWNED VEHICLE PRODUCERS GIVES SUBSTANCE TO CONCEPT OF "GENERAL MOTORS A LA FRANCAISE".

5. MANAGING DIRECTOR OF GENERAL MOTOR FRANCE HAS EXPRESSED VIEW TO COMMERCIAL COUNSELOR THAT NEW SET-UP WILL NOT MATERIALLY REDUCE CURRENT FRENCH MARKET SHARE (21.7 PERCENT) FOR IMPORTED CARS, CHIEFLY FROM GERMANY AND ITALY. IT WILL, HOWEVER, MAKE PEUGEOT/ CITROEN MORE FORMIDABLE COMPETITOR IN THIRD MARKETS AS PEUGEOT'S AGGRESSIVE EXPORTING STAFF WILL NOW BE ABLE TO PUSH CITROENS, WHICH HAVE NOT BEEN MUCH EXPORTED IN PAST. HE DOES NOT ANTICIPATE MERGER OF PEUGEOT/ CITROEN WITH RENAULT UNLESS SOCIALISTS GAIN POWER IN 1978 AND NATIONALIZE WHOLE FRENCH-OWNED CAR INDUSTRY.

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